

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT Risk Management	(2) MEETING DATE June 19, 2012	(3) CONTACT/PHONE Tami Douglas-Schatz (805) 781-5959	
(4) SUBJECT Request to approve a three-year extension to a contract with Sedgwick, CMS, for Workers' Compensation third party administration services in the amount of \$545,000 for FY 2012-13.			
(5) RECOMMENDED ACTION It is recommended that the Board approve a three-year extension to a contract with Sedgwick, CMS for Workers' Compensation third party administration (TPA) services pursuant to the exception to RFP process in the County's purchasing policy for contract services.			
(6) FUNDING SOURCE(S) Workers' Compensation Fund FY 2012-13 budget	(7) CURRENT YEAR FINANCIAL IMPACT \$545,000	(8) ANNUAL FINANCIAL IMPACT \$545,000	(9) BUDGETED? Yes
(10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation (Time Est. _____) <input type="checkbox"/> Hearing (Time Est. _____) <input type="checkbox"/> Board Business			
(11) EXECUTED DOCUMENTS <input type="checkbox"/> Resolutions <input checked="" type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input type="checkbox"/> N/A		(12) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5th's Vote Required <input checked="" type="checkbox"/> N/A	
(13) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) 19001162		(14) W-9 <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
(15) LOCATION MAP N/A	(16) BUSINESS IMPACT STATEMENT? No	(17) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date <u>4/27/04 & 6/23/09</u>	
(18) ADMINISTRATIVE OFFICE REVIEW Emily Jackson			
(19) SUPERVISOR DISTRICT(S) All Districts -			

County of San Luis Obispo



TO: Board of Supervisors

FROM: Tami Douglas-Schatz, Director of Human Resources
(805) 781-5959

DATE: June 19, 2012

SUBJECT: Request to approve a three-year extension to a contract with Sedgwick, CMS, for Workers' Compensation third party administration services in the amount of \$545,000 for FY 2012-13.

RECOMMENDATION

It is recommended that the Board approve a three-year extension to a contract with Sedgwick, CMS for Workers' Compensation third party administration (TPA) services pursuant to the exception to RFP process in the County's purchasing policy for contract services.

DISCUSSION

Since the late 1970's, the County has contracted with outside firms for administration of the Workers' Compensation Program. These firms, referred to as third party administrators (TPA), carry out the day-to-day claims management activities and ensure all claims reporting and legal requirements are met. This includes such activities as: investigating claims, adjusting and settling claims, maintaining claim documentation, monitoring defense plans and costs for litigated claims, reporting claims to the County's excess insurer (i.e. CSAC – Excess Insurance Authority), and maintaining an automated claims reporting system.

The County changed workers' compensation claims administrators at the end of FY 2003-04 to Sedgwick, CMS. At that time, the County had over 470 open claims and annual claims reported totaled more than 250 claims per year. More than 130 claims were litigated. Total workers' compensation liabilities were estimated at more than \$26.7 million and annual workers' compensation payments exceeded \$4.9 million that year (an average of \$415,000 per month) after hitting a high of \$6.5 million in FY 2002-03. More than \$900,000 of the \$4.9 million was for temporary disability benefits and medical payments comprised more than \$2.4 million of the total.

The County's effective use of the high quality services of Sedgwick, CMS in the last seven years has resulted in substantial reductions in workers' comp costs and exposures, as detailed in the table below.

Work Comp Program Metrics	Prior TPA	Sedgwick	% improvement
Total Liabilities	26.7M	9.9M	62% reduction in liabilities
Annual claims reported	250	190	24% reduction in claims reported
Total open claims	470	270	43% reduction in open claims
Medical payments	2.4M	1.4M	42% reduction in medical payments
Temporary disability payments	950K	280K	70% reduction in disability payments

In June of 2009, the County entered into a three-year contract extension with Sedgwick, CMS for the Workers' Compensation TPA services. The County has been successful in re-negotiating the final year of the current contract extension from \$677,000 to \$545,000, a substantial savings of \$132,000. This renegotiation was conditional upon the County considering a three year extension of Sedgwick's contract from FY 2012-13 through FY 2014-15. Other favorable terms were also negotiated for the three year contract before the Board today. The contract remains flat at \$545,000 in FY 2012-13, and then increases 2% per year, to \$555,900 in FY 2013-14 and \$567,018 in FY 2014-15. In each contract year, Sedgwick, CMS has agreed to a performance based incentive program where \$30,000 is withheld from the stated

annual contract amount. Annually, performance based measures will be determined and if the outcomes are met, Sedgwick, CMS has the potential to earn up to the contracted amount. Staff concludes that the County would be better served by extending the existing contract with Sedgwick, CMS for an additional three years as opposed to conducting a formal RFP process. Staff makes this recommendation for the following reasons:

- Sedgwick, CMS provides high quality service. For the last seven years, Sedgwick has consistently provided the County with timely and effective workers' compensation claims management services.
- The aforementioned re-negotiated terms of the contract make this an exceptionally competitive fee rate.
- Staff has invested a significant amount of time educating Sedgwick staff on the County's claims and processes. A consultant, TCS Risk Management Services, performed an open market survey of other Worker's Compensation TPA's. Based on the survey, at least one other TPA may offer services in the same price range as Sedgwick CMS. However, the survey also revealed the cost of changing from an existing TPA service to a new service provider is estimated to be approximately \$60,000 to \$100,000. These additional costs would arise from shifting data from one TPA's proprietary database to a new TPA's database, transferring specific case knowledge from the existing TPA to new claims adjusters, and training County and TPA staff to facilitate efficient adoption of respective programs and protocols. These potential costs make changing TPA's inefficient and costly.

Given these reasons, staff believes that the value of extending the current contract outweighs the value of pursuing an RFP at this time. The re-negotiation of the final year of our existing contract saves the County \$132,000 in FY 2012-13. Additional savings are realized in the agreement to have a flat service fee for FY 2012-13 and to have control over the service fee increase for the final two years of the contract. Therefore, staff recommends that the Board execute the contract amendment presented and waive the County's purchasing policy for contract services. The amendment extends the contract to June 30, 2015.

OTHER AGENCY INVOLVEMENT/IMPACT

County Counsel has approved the contract amendment as to form and legal effect.

FINANCIAL CONSIDERATIONS

The cost of the final year (FY 2011-12) of the current contract will be \$545,000. This amount will remain flat for the first year (FY 2012-13) of the three year contract extension. In FY 2013-14 and FY 2014-15, the contract provides for a 2% per year increase to service administration fees. During each contract year, \$30,000 of the stated contract will be withheld for the performance based incentive program.

Fiscal Year	Cost of Contract	Change in Costs
FY 2010-11	\$677,000	
FY 2011-12	\$545,000	\$132,000 in savings
FY 2012-13	\$545,000	Flat
FY 2013-14	\$555,900	2% increase
FY 2014-15	\$567,018	2% increase

Adequate funding is available in the Workers' Compensation Fund to cover the contract amount. The contract will net a substantial savings to the County.

RESULTS

Continued high quality, Workers' Compensation TPA services without cost increases for the next year and a controlled 2% per year increase to contract fees for two subsequent fiscal years.

ATTACHMENTS

1. Sedgwick Contract - Amendment Number 2